

REPORT ON TRIP TO BULGARIA

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Introduction and Objectives

This report summarizes the activities undertaken during the ICMA project team's May 1-12 trip to Bulgaria. The primary objectives of this trip were two-fold, to: (1) institutionalize the Public/Private Partnership Process, focusing on Municipal Land Development, and (2) extend the Public/Private Partnership (P/PP) process to the redevelopment and development of municipal assets in the form of under-utilized land and facilities.

The tasks required to meet the first objective focused on creating a new position of technical advisor to assist in project follow-up and deliver on-going technical assistance to Round Two demonstration municipalities. Initially, the ICMA team needed to identify a suitable organization willing to take on an additional staff member. Secondly, they needed to devise a qualification statement for the position they were proposing to create.

Within the second objective, the tasks, including a review of overall project goals with the Sofia based staff, visits to Round Two municipalities, reviewing proposed projects, and devising a work program to provide on-going technical assistance (utilizing current project staff and the newly appointed technical advisor) were all necessary to help institutionalize the P/PP process.

During this trip, the ICMA team visited four cities which are currently involved in the Public/Private Partnership process. They began their tour in Sofia, continued on to Blagoevgrad, Gabrovo, and ended in Bourgas. Throughout their trip they met with municipal officials, USAID and ICMA country staff, and community leaders. The following report summarizes the meetings in which they participated, as well as their principal findings and recommendations for the P/PP project.

Meetings and Persons Contacted

Sofia

In Sofia, the team met and reviewed the project with Dimitar Doukov, ICMA's Country Representative for Bulgaria, and Michael Hoffman, Director of the Bulgarian Housing and Urban Development Program (BHUDP). They held a background meeting with Belin Mollov, Director of the Local Government Department of the Ministry of Regional Development and Construction, to learn about municipal reform plans, and they also received a briefing on the Bulgarian energy conservation project from Zdravko Genchev,

Director of EnEffect, and Bill Currie and Chris Andreoni of Battelle, regarding possibilities of combining energy efficient materials and systems in the demonstration projects. A discussion was held with Robert Maffin, USAID/Bulgaria's Director of Association Development, to review institutionalization objectives and the role of the newly formed Foundation for Local Government Reform (FLGR).

Ginka Kapitanova, Mayor of Zlatograd and newly named Executive Director of the FLGR, spoke with the ICMA staff regarding the appropriateness of the Foundation housing the new P/PP Technical Advisor. Before they left Sofia, the team briefed USAID/Bulgaria mission staff who were responsible for overseeing the P/PP Round Two program. John Babylon, Director of Social Programs (including housing and urban development), and Lucy Mincheva, Program Development Specialist, both newly named personnel for the Round Two Program.

Blagoevgrad

While in Blagoevgrad, the project team participated in a project overview and scheduling meeting with Ilian Popov, City Secretary. Mr. Valais and Mr. Claggett identified, reviewed and discussed site visits with Vasil Goshev, Chief Architect (the meeting was attended by other municipal staff involved in development, including the City Asset Manager). They also met with two contractors active in the Blagoevgrad region (as well as in Sofia) to discuss local development conditions, company capabilities and interest in the Request for Proposal (RFP) process. Finally, they spoke with Eliana Maseva, Mayor, to discuss the P/PP process and learn about the Municipality's priorities for development among the eight projects reviewed.

Gabrovo

In Gabrovo, the team had the opportunity to meet various city staff members, while Tzvetan Antonov, Deputy Mayor, gave them a project briefing. On two separate occasions, priorities and project proposals were discussed with Mayor Ivan Nenev. A site visit was arranged and a detailed review of project characteristics and conditions were presented by Emilia Marinova, Manager, Youth Cultural and Information Center. Their discussion carried over to a second meeting, which was joined by the municipal budget analyst assigned to this project. They closed their visit with a general issues and policy briefing by Gabrovo's Chief Architect, Chief of Housing, and Chief of the State Property Division.

Bourgas

The Bourgas Municipality provided three opportunities to meet with City officials. During a meeting with Diana Peneva, City Secretary, the project overview was discussed and the status of ongoing work was reviewed. Georgi Georgiev, Deputy Mayor, shared his feelings

on the shortcomings of the project, as well as development policy issues. They were joined by Juri Kopach, Director of the Finance Department, who presented more details on the project. In their final meeting, the City's priorities were outlined by Prodan Prodanov, Mayor.

Principal Findings and Recommendations

This section describes the general *findings* of project staff regarding the municipal proposals for the Round Two demonstration projects. Based on these findings, a series of *next steps* are outlined which are designed to further test the feasibility of the projects. Concurrently, these findings will set the stage for an action plan that can be utilized by the municipalities in conjunction with technical assistance from the resident staff and other municipal resource personnel, under the general guidance and direction of ICMA project staff. A schedule of activities will be prepared subsequently, based on the *next steps* described below.

Institutionalization

Organizational Setting

Following discussions with Michael Hoffman and Bob Maffin, it seems clear that this project should build on the work of Bob Maffin and others, to create nationwide associations representing various municipal, professional and political interests. The budding FLGR seems well suited to oversee the efforts of a technical assistance program to help institutionalize the P/PP process for a variety of local governmental development needs.

In subsequent discussions with Mayor Ginka Kapitanova, the newly named Executive Director of the Foundation, the project team noted her enthusiasm about the concept, and she readily agreed to provide housing for the new staff position. The Foundation will soon open offices in Sofia, making the timing for bringing on new staff propitious. Mayor Kapitanova agreed to assist the project staff in finding and screening qualified candidates.

Staff Qualifications

As the proposed projects were reviewed in each of the three cities, an effort was made to find common themes that might suggest the general qualifications required for the new technical advisor. Partly because of his prior involvement in the P/PP Housing Demonstration Program, Deputy Mayor Georgiev of Bourgas was quite interested in this topic. He suggested that we should seek a person who has most, if not all of the following qualities:

- Good knowledge of local government in Bulgaria;
- Excellent communication skills;

- Experience with negotiation processes and tactics; and

- An understanding of problem solving techniques employed outside of Bulgaria.

These qualities are pertinent and should be incorporated into the assessment and screening process. Based on the range of projects and the type of work to be carried out over the next year, the ICMA team would add the following as qualifying considerations:

- Background in economics and/or urban planning;
- Practical knowledge of real estate development; and
- Understanding of management systems and functions.

When soliciting and evaluating candidates, consideration should be given to the possibility of sending the designated person to the United States for a *several-week tailored program* at one of the universities specializing in these subjects. MIT and the University of Southern California, for example, have the two best real estate development programs in the country.

Blagoevgrad

For the first day of the Blagoevgrad site visit, project staff were accompanied by Lucy Mincheva and John Babylon of the USAID mission staff, who wanted to obtain a first-hand look at the proposed project sites and gain a better understanding of the P/PP process. In general, ICMA's findings and recommendations are as follows:

Findings

The City of Blagoevgrad has eight sites and two additional projects that they presented as candidates for development, redevelopment or project management. All of the sites and the two projects are within easy walking distance from the town center. These included the following:

- Site for a new bank;
- Adjacent to the bank site, a location designated for mixed-use development, including commercial, retail and possibly, housing;
- A large site suitable (according to their plans) for a shopping center, one- third owned by private individuals;

- Another, larger (approximately four-acre) shopping center site near the railroad and bus stations;
- A riverside location, currently serving as a large open-air farmer's market and location for small convenience stores, to be redeveloped as a covered marketplace;
- Two small sites for housing;
- The Varosh, an "old-town" area with numerous unused and empty buildings that could be renovated for educational, entertainment, tourism and recreational uses; and
- An existing Sports Complex planned for expansion and redevelopment, ideally to be used as an American University facility with provisions for public use, as well.

Of the eight sites, the Municipal Council has authorized the Mayor to take action on the bank site and the marketplace. Consequently, these are the Mayor's top priorities. Apparently, there has been substantial demand for more bank sites in the City. It is uncertain what is meant by "substantial," but it is clear that this is the Mayor's number one priority. The bank project has been in the planning stage for several years, and includes architectural renderings and recommended physical dimensions for a new building. In addition, one bank has made a proposal for development of the site, including a promissory declaration of dedicated financing. The Mayor indicated that the City had not proceeded with the development because of uncertainty over what steps to take and how to ensure that the process would be open to all interested banks, as well as transparent to the public.

There seems to be enough uncertainty associated with the other sites--preliminary stage of planning and commitment from the Municipal Council--that suggests that the bank site should be developed to meet an apparent demand and to provide City staff with the requisite experience to pursue partnership projects for the other sites when the political approval process moves ahead.

Next Steps

There essentially are two concurrent activities that need to be undertaken by the project staff and the new technical advisor as soon as that person is named and on board.

First, there is need for a preliminary *market study* of the bank site to determine the level and nature of interest. This would require informal interviews with several local and national banks that are active in or have expressed some interest in regional expansion. This survey should examine the manner in which banks have acquired sites in the past and the character of their development processes, including guarantees and construction procedures. Some of this information can be obtained from architectural firms and/or contractors with experience in constructing branch bank facilities.

Second, a draft development procedural plan should be prepared that spells out the steps the Municipality must take to obtain and screen valid proposals (the RFP process). This will define ways to obtain performance guarantees from interested banks. It also may be necessary to conduct a briefing for banks or other investors interested in bidding on the site. This would be somewhat different from a bidders conference for developers, but the objectives would be the same.

Gabrovo

Gabrovo is a city of about 90,000 inhabitants situated in the central mountains of Bulgaria. Once a major manufacturing center, Gabrovo today has a struggling economy, and its leaders are seeking every means to create a new *niche* for the city as a leader in Bulgaria's overall future economic recovery. Consequently, the Mayor actively pursues and welcomes foreign programs of any type. He believes Gabrovo should be a testing ground for new programs, processes, and industries.

For example, the Mayor is pursuing energy efficient housing projects as part of the EnEffect demonstrations and is hoping to lure German building materials suppliers to the City (e.g. he invited us to join a meeting with company representatives while we were waiting for our own meeting with him, to help demonstrate his commitment). The Mayor also brings this same sense of commitment to the youth of Gabrovo, who are the focus of the Municipality's urban redevelopment project.

Findings

The proposed Gabrovo project is unique and addresses a different type of P/PP program involving municipal land assets. The Municipal Council has authorized the Mayor to reconstruct a derelict concrete performing arts pavilion which has been stripped of all useful building material and equipment, hardware and other fixtures. The pavilion includes a large amphitheater, seating over 2000 people, and various office and function rooms totaling about 2600 m². The pavilion occupies a site of 6635 m² located adjacent to the center of town.

It is clear that the structure will require substantial reconstruction and renovation to make it functional for any use. It is also clear that the City officials, from the elected Mayor and Council to appointed staff, are committed to using the facility as the focal point for the region's public and private youth support programs. As planned, the pavilion will become the Youth Cultural and Information Center (YCIC), housing a wide range of youth services, as well as providing opportunities for commercial uses which cater to the younger generation (such as a cafe or a discotheque). In addition, the amphitheater could be used for both youth concerts as well as other performing arts appealing to a broader based and larger audience.

The City estimates that the total cost for reconstruction will be about 12 million leva, about \$187,000 at current exchange rates. Of this amount, about one million leva has already been spent in structural improvements to the stage and installation of door and window frames. The accuracy of the cost estimates is unknown, although it is likely that they are very low, even considering the lower construction costs in Bulgaria.

Based on our interviews, it appears that the biggest obstacles the City faces, in addition to the availability of funds for the reconstruction, are organizational and procedural in nature. They simply do not know how to organize or manage the P/PP process, especially considering the need to bring in private providers of youth services and investors in related commercial ventures.

Next Steps

As indicated, the most appropriate course of action for the Gabrovo Municipality would be to create a not-for-profit public/private partnership foundation to oversee the reconstruction of the pavilion and to develop and manage the YCIC. At this early stage, the envisioned foundation would be directed by a public/private board, comprising representatives from the City and from key local private and public industrial concerns.

The technical assistance required relates to tasks involving the creation of the proposed foundation and the development of a *business plan* that would guide and assist the foundation in program implementation, fund raising, space and renovation planning, construction management, and public/private facility and program management.

The YCIC is unquestionably the Mayor's highest priority for municipal asset development. The present planning activity for the Center has been underway since March 1994, and the Mayor would welcome assistance that could move the project forward. He agreed that the foundation approach offered the most promise to this

purpose. In preparation for the next meeting, an activity schedule (based on a simplified critical path analysis) should be prepared that shows the tasks the City needs to undertake and the relationship of the tasks to critical milestones.

Bourgas

The Municipality of Bourgas is well known to us in the context of utilizing P/PPs for development of municipal land. During the course of the housing demonstration, the City Secretary, Diana Peneva, indicated that they intended to use the RFP process for other, non-housing projects that they had been trying to move forward, but with little success. Of the projects they wish to pursue, their highest priority is an unfinished office/commercial/retail structure of monumental proportions. Our findings and considerations for next steps are as follows:

Findings

The structure in question is referred to as the "Town Center Superstore." It is located adjacent to the University and abuts a large plaza currently lined with dozens of "temporary" small retail establishments which appear to constitute a viable commercial district. The district is about a five-minute walk from the center of the city. The structure itself, is a skeletal behemoth totaling about 350,000 square feet. The project was launched in 1986 and construction halted in 1992, due to lack of funds and the changing political and economic conditions of the country.

The building is owned by a share-holding company formed in 1989, comprised of the Municipality and state-owned enterprises. The Municipality owns 87% of the shares. It is the Municipality's intent to sell the building to a private developer, or investor group, who would agree to finish the project, although what ultimate use would be made of the space is still unclear. It is estimated that completion of the structure would cost upwards of \$10 million at current rates of inflation.

The Municipality has been unsuccessful in attracting investors over the past four years. One of the reasons is presumed to be a disagreement over for what purpose the finished structure should be used. In general, it is assumed that the building would be utilized more for office and business services rather than as a shopping center, although the Municipal officials really have no idea what uses should be permitted. The Deputy Mayor believes the Municipal Council wants to move this project forward and would like to see a *total program* for its use and disposition.

There are a number of problems and outstanding issues associated with the site. Some of the issues require staff research, but much of the difficulty appears to stem from

lack of knowledge or information about the market and potential investors. In addition, there are restitution problems on an adjacent site which have implications for additional infrastructure requirements.

Another issue pertains to shareholder conflicts, although the nature of the conflicts is not clear. There appears to be staff disagreement about how far the Municipality can go without consent from the minority (State) shareholders and approval from the Privatization Board.

At this point, it seems that the most important assistance revolves around the need to sort out all of the issues and problems associated with completion and disposition of this important municipal asset which has become a veritable white elephant. The Municipality is open to a variety of options, ranging from outright sale of the property to formation of a joint development corporation with private investors. However, they are in a situation somewhat analogous to that of Gabrovo--they need assistance structuring the project so that it can be evaluated, organized and managed through disposition. As the Deputy Mayor stated, they will need a total program.

Next Steps

Prior to the next ICMA technical assistance visit to Bourgas concerning this project, a market development program needs to be prepared that lays out the entire range of issues. It should identify those issues that can and should be resolved by direct Municipal action, and those which require outside technical assistance. At this juncture, it appears that there will need to be two streams of activity.

The first involves an internal Municipal staff analysis of the legal issues associated with the shareholder conditions of Municipal ownership. In addition, the staff needs to evaluate the exact nature of the restitution-related issues and how they can be resolved, identifying what decisions must be made by which government entity. Finally, the staff needs to present a range of legally possible disposition actions that the Municipality can take, given different scenarios of development.

The second stream of activity focuses on current and future market conditions and possibilities for the use of the projected building. This would need to be the responsibility of the project staff (Bulgarian and foreign technical assistance providers) on two levels: (1) identifying the types of information and analysis required, and preparing work programs for Municipal or other staff to undertake; and (2) designing and implementing market studies to identify possible uses for the site, as well as potential investors (both domestic and foreign).

In addition, ICMA project staff can assist the Municipality with development of a total program for disposition of the site, once the two streams of work come together. At this stage, the project objective should focus on this as the final work product: a disposition plan for the Town Center Superstore that can be presented to the Municipal Council for action.

Conclusion

Bulgarian municipalities have begun to institutionalize the Public/Private Partnership Process. A Technical Advisor, whose responsibility it is to provide on-going technical support to P/PP proponents, will be selected and work within the newly formed Foundation for Local Government Reform. The selection of an advisor is the first step in the creation of an objective "governing"

body to oversee future land use projects. To further the institutionalization process, current proposals for mixed-use projects on municipal land were reviewed, and recommendations made to provide appropriate technical assistance to all current and proposed P/PP projects. Programmatic changes suggested for the Cities of Gabrovo, Blagoevgrad and Bourgas include training municipal officials on the RFP Process, implementing market development programs and devising business plans to define and guide the scopes of each project. These steps will ensure that proper project management techniques are being utilized, and that the P/PP Process will be transparent and fair.